

**REPORT OF THE AUDIT OF THE
LEE COUNTY
SHERIFF**

**For The Year Ended
December 31, 2008**

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The Honorable Steve Mays, Lee County Judge/Executive
The Honorable Donnie Hogan, Lee County Sheriff
Members of the Lee County Fiscal Court

Independent Auditors' Report

We have audited the accompanying statement of revenues, expenditures, and excess fees – regulatory basis of the Sheriff of Lee County, Kentucky, for the year ended December 31, 2008. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Audit Guide For County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2008, in conformity with the regulatory basis of accounting as described in Note 1.

The Honorable Steve Mays, Lee County Judge/Executive
The Honorable Donnie Hogan, Lee County Sheriff
Members of the Lee County Fiscal Court

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2009, on our consideration of the Lee County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

2008-1 Condition: The Sheriff's Office Lacks Adequate Segregation of Duties


2008-2 Condition: The Bookkeeper Should Batch Receipts and Make Deposits Daily

2008-3 Condition: The Sheriff's Office Should Prepare Complete and Accurate Monthly Receipt Ledgers

2008-4 Condition: The Bookkeeper Should Prepare Monthly Bank Reconciliations For All Bank Accounts

This report is intended solely for the information and use of the County Sheriff and Fiscal Court of Lee County, Kentucky and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Morgan-Franklin, LLC

October 8, 2009

LEE COUNTY
DONNIE HOGAN, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2008

Revenues

State Grants		\$	739
Wal-Mart Grant			1,000
State Fees For Services:			
Finance And Administration Cabinet	\$	5,316	
Cabinet For Health and Family Services		750	
Sheriff Security Services		6,995	13,061
Circuit Court Clerk:			
Fines And Fees Collected		1,772	
Court Ordered Payments		760	2,532
Fiscal Court			2,145
County Clerk - Delinquent Taxes			1,769
Commission On Taxes Collected			107,331
Fees Collected For Services:			
Auto Inspections		1,085	
Accident And Police Reports		376	
Serving Papers		14,894	
Carrying Concealed Deadly Weapon Permits		900	17,255
Other:			
Sheriff's Add On Fees		16,484	
Miscellaneous	\$	9,215	25,699
Interest Earned			408
Total Revenues		\$	171,939

The accompanying notes are an integral part of this financial statement.

LEE COUNTY
DONNIE HOGAN, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2008

Payments To Fiscal Court -			
February 20, 2008	\$	4,864	
March 20, 2008		13,188	
April 16, 2008		10,324	
May 21, 2008		15,521	
June 12, 2008		15,152	
July 16, 2008		3,979	
July 21, 2008		1,135	
August 12, 2008		3,496	
September 8, 2008		3,658	
October 7, 2008		6,217	
November 28, 2008		2,531	
December 4, 2008		49,669	
January 21, 2009		28,086	
March 2, 2009	\$	<u>1,771</u>	\$ <u>159,591</u>
Balance Due Fiscal Court At Completion Of Audit			\$ <u><u>12,348</u></u>

The accompanying notes are an integral part of this financial statement.

LEE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2008 services
- Reimbursements for 2008 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2008

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

The Sheriff follows the guidance of the *Audit Guide For County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky, which does not require a management discussion and analysis or budgetary comparison information.

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

D. Fee Pooling

The Lee County Sheriff is required by the Fiscal Court to participate in a fee pooling system. Fee officials who are required to participate in fee pooling deposit funds collected into their official operating account. The funds are then paid to the County Treasurer on a monthly basis. Invoices are submitted to the County Treasurer to document operating expenses. The County Treasurer pays all operating expenses for the fee official.

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent for the first six months and 13.50 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2008
(Continued)

Note 3. Deposits

The Lee County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Lee County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Bank Balance At 12/31/2008	\$ 447,032
Less: FDIC	(250,000)
Collateral *	<u>(200,000)</u>
Collateral in Excess of Deposits	<u>\$ (2,968)</u>

*Pledged securities held by a third party bank in the county officials name.

Note 4. Related Parties

The County Finance Officer is one of the Sheriff's sisters, she reviews timesheets and invoices from the Sheriff's office prior to payment. The Property Valuation Administrator is also his sister and she prepares tax bills for the Sheriff's Department.

Note 5. Grant

In December of 2007, the County Sheriffs's office received a grant from Wal-Mart in the amount of \$1,000. Funds totalling \$1,000 were expended during 2008. The unexpended grant balance was \$0 as of December 31, 2008.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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The Honorable Donnie Hogan, Lee County Sheriff

Members of the Lee County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Lee County Sheriff for the year ended December 31, 2008, and have issued our report thereon dated October 8, 2009. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lee County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting. 2008-1, 2008-2, 2008-3, and 2008-4

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
Continued

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Lee County Sheriff's financial statement for the year ended December 31, 2008 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Lee County Fiscal Court, and the Department For Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Morgan-Franklin, LLC

Morgan-Franklin, LLC

October 8, 2009

LEE COUNTY
DONNIE HOGAN, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2008

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES, MATERIAL WEAKNESSES:

2008-1. Condition: The Sheriff's Office Lacks Adequate Segregation of Duties

The Sheriff's office lacks a proper segregation of duties because the bookkeeper receives all funds, prepares the daily checkout sheets, and also prepares the bank deposits. In addition, the bookkeeper records the receipts in the receipts ledger, prepares and signs the checks, posts to the disbursements ledgers, prepares bank reconciliations and quarterly financial statements.

Criteria: Good internal controls dictate the same employee should not handle, record and reconcile receipts.

Effect: Misappropriation of assets could occur.

Cause: The current design in the internal control structure does not reduce the level of risk that errors and fraud may occur and not be detected within a timely period by employees in the normal course of performing their assigned duties.

Recommendation: We recommend that the Sheriff segregate these duties or implement the following compensating controls:

- The Sheriff should periodically recount and make the deposit.
- The Sheriff should perform surprise cash counts.
- The Sheriff should reconcile monthly reports to source documents and the receipts and disbursements ledger.

These compensating controls should also be documented by initialing source documents.

Sheriff, Donnie Hogan's Response: None.

2008-2. Condition: The Sheriff's Office Staff Should Batch Receipts And Make Deposits Daily

During our audit, we noted that the Sheriff's office staff did not batch receipts and make deposits daily. It appears that in the month of June that receipts were only batched and deposited five times.

Criteria: Receipts should be posted to a daily checkout sheet every day. Deposits should be made at a minimum, weekly or when the receipts equal \$500, whichever occurs first.

Effect: Assets could be stolen if not deposited timely.

Cause: Unknown.

Recommendation: We recommend that the office staff batch receipts and make deposits daily.

Sheriff, Donnie Hogan's Response: None.

LEE COUNTY
DONNIE HOGAN, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2008

2008-3. Condition: The Sheriff's Office Should Prepare Complete and Accurate Monthly Receipt Ledgers

During our audit, we noted two instances where the monthly receipt ledger did not include all deposits. We also noted on instance where a receipt was inappropriately classified.

Criteria: The Sheriff's Office should reconcile monthly receipt ledgers to the receipts, bank statements, and daily checkout sheets.

Effect: Inaccurate monthly receipt ledgers.

Cause: The Sheriff's Office lacks adequate controls to prevent or detect misstatements.

Recommendation: We recommend that the bookkeeper compare the receipt ledger to the receipts, bank statements, and daily checkout sheets. We also recommend that the Sheriff look at the monthly receipt ledgers to determine their accuracy.

Sheriff, Donnie Hogan's Response: None.

2008-4. Condition: The Bookkeeper Should Prepare Monthly Bank Reconciliations For All Bank Accounts

During our audit, we noted that the Bookkeeper did not perform monthly bank reconciliations.

Criteria: Bank reconciliations are necessary to determine the amount of cash on hand at the end of each month.

Effect: Cash on hand at the end of each month is unknown.

Cause: The bookkeeper utilizes a printout of all transactions from the bank, however this does not show the deposits in transit or outstanding checks.

Recommendation: We recommend that the Bookkeeper prepare monthly bank reconciliations for all bank accounts.

Sheriff, Donnie Hogan's Response: None.